

Message Text

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ACTION MC-02

INFO OCT-01 EUR-25 ISO-00 PM-07 DODE-00 EB-11 NSAE-00

RSC-01 TRSE-00 AEC-11 CIAE-00 COME-00 INR-10 PA-03

USIA-15 PRS-01 SPC-03 L-03 EA-11 NIC-01 ACDA-19 DRC-01

SS-15 NSC-10 OMB-01 /151 W

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P R 011220Z OCT 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 4348

INFO USMISSION OECD PARIS

USMISSION NATO BRUSSELS

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DEPT FOR EB AND P/M

DEPT PASS DOD (ISA HILL)

E.O. 11652: N/A

TAGS: CH/UK/ESTC

SUBJECT: UK SALE SPEY 202 ENGINE TO PRC

1. OCT. 1 FINANCIAL TIMES CARRIED FOLLOWING STORY BY
MICHAEL DONNE, AEROSPACE CORRESPONDENT CONCERNING
SUBJECT SALE.

2. BEGIN TEXT: "THE POSSIBILITY OF CHINA BUYING
RIGHTS TO MAKE THE ROLLS ROYCE (1971) SPEY JET ENGINE
FOR CIVIL AND MILITARY USE IS NOW UNDER CONSIDERATION
BY THE U.K. GOVERNMENT.

3. "THE MATTER HAS BEEN DISCUSSED ON A NUMBER OF
OCCASIONS BETWEEN SIR KENNETH KEITH, CHAIRMAN OF ROLLS
ROYCE (1971) AND MR. MICHAEL HESELTINE, THE AEROSPACE
MINISTER, AND IT IS LIKELY TO BE ONE OF THE SUBJECTS ON
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THE AGENDA WHEN MR. HEATH VISITS CHINA.

4. "THE U.K. AEROSPACE INDUSTRY AS A WHOLE IS PRESSING STRONGLY IN FAVOUR OF THE DEAL, FOR IT SEES IT AS CONSOLIDATING ITS ALREADY STRONG FOOTHOLD IN THE CHINESE AVIATION MARKET.

5. "ROLLS ROYCE (1971) BELIEVES THAT BY SELLING RIGHTS TO THE SPEY TO THE CHINESE IT WILL NOT ONLY SECURE A FIRM BASE FOR FURTHER ENGINE DEALS, BUT ALSO GET WORKING CAPITAL WITH WHICH TO FINANCE OTHER ACTIVITIES.

6. "HAWKER SIDDELEY WOULD WELCOME THE DEAL, BECAUSE THIS MIGHT WELL INDUCE CHINA TO BUY MORE SPEY-POWERED TRIDENTS, BEYOND THE 20 ALREADY ON ORDER.

7. "THE BRITISH AIRCRAFT CORPORATION FEELS THAT A CHINESE SPEY DEAL MIGHT ALSO LEAD TO SALES OF ITS OWN SPEY POWERED ONE-ELEVEN SHORT-MEDIUM-HAUL JET AIRLINER THERE.

8. "THE CHINESE HAVE THE SPEY ALREADY, IN THE THREE TRIDENTS BOUGHT SOME TIME AGO FROM PAKISTAN INTERNATIONAL AIRLINES AND IN THE HAWKER TRIDENTS DELIVERED SO FAR.

9. "ON THE MILITARY SIDE, THE SPEY POWERS THE U.K. VERSIONS OF THE U.S. PHANTOM FIGHTER, AND THERE MIGHT THUS BE SOME DIFFICULTY IN SELLING THE MILITARY MODEL TO CHINA.

10. "IT IS ARGUED IN THE U.K. AEROSPACE INDUSTRY, HOWEVER, THAT IT WOULD BE EASY FOR THE CHINESE TO DEVELOP THEIR OWN MILITARY VERSION FROM THE CIVIL ENGINE, SO THERE IS NO REASON WHY THEY SHOULD NOT BE GIVEN THE MILITARY SPEY AS WELL.

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11. "THE U.K. INDUSTRY ARGUES THAT THE SPEY - DESIGN OF WHICH BEGAN IN 1959 - IS NOW AN 'OLD TECHNOLOGY' ENGINE, IN TERMS OF AERO-ENGINE DEVELOPMENT, HAVING BEEN OVERTAKEN BY SUCH NEW TYPES AS THE RB-211 FOR CIVIL USE AND THE RB-199 FOR MILITARY USE. THUS, IT IS CLAIMED THERE CAN BE NO REAL OBJECTION TO THE PROPOSED DEAL.

12. "THE CHINESE ARE BELIEVED TO BE SEEKING MORE THAN JUST NORMAL COMMERCIAL LICENSE RIGHTS. THEY WANT TO BE ABLE TO USE THE SPEY TO ESTABLISH THEIR OWN GAS-TURBINE AEROENGINE INDUSTRY, AND TO BE FREE TO DEVELOP THE SPEY IN ANY WAY THEY CHOOSE, WITHOUT INTERFERENCE FROM ROLLS-ROYCE (1971).

13. "IT IS BELIEVED THEY WOULD BE PREPARED TO PAY A LARGE SUM FOR THIS OUTRIGHT ACQUISITION OF SPEY TECHNOLOGY. IF THEY CANNOT GET THE SPEY, THEY MIGHT BE

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PREPARED TO TURN TO THE U.S., AND BUY RIGHTS IN A CORRESPONDINGLY "OLD TECHNOLOGY" ENGINE SUCH AS THE PRATT AND WHITNEY JT3D USED IN THE BOEING 707S OF WHICH CHINA IS ALREADY BUYING TEN.

14. "IT IS THIS FEAR OF LOSING OUT TO THE U.S. THAT IS PROMPTING THE PRESSURE FOR THE DEAL FROM THE U.K. AEROSPACE INDUSTRY. HAVING BROKEN INTO THE CHINESE AVIATION MARKET IN A BIG WAY, THE U.K. INDUSTRY IS ANXIOUS TO BROADEN ITS INFLUENCE AND SALES THERE.

END TEXT.

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